FINANCIAL IMPLICATIONS OF ROCHESTER STATE HOSPITAL CLOSURE

OCTOBER 1982

Prepared for:
Governor's Task Force on Use and
Disposition of Rochester State Hospital

By:
Gwen Crawley, Executive Director
Southeastern Minnesota Health Systems
Agency 2200 SW Second Street
Rochester, MN 55901

For fiscal year 1983 a loss rattier than a savings at both the state and regional level could result from the closure of Rochester State Hospital (RSH). The deficit for the state has been calculated in this report to be $1,535,219. This is in addition to nearly $2.5 million paid out in fiscal year 1982 for severance pay, relocation and unemployment benefits to former RSH employees. It appears that the original legislative analysis which projected a savings of $7 million underestimated the continued use of the state hospital system by residents of southeastern Minnesota and overlooked the bargain the state was receiving from RSH's centralized laboratory and surgical services. State savings are realized only by shifting some costs to the Medicaid budget and reducing service levels at other state hospitals.

Southeastern Minnesota counties are estimated to experience an increase in costs of over $262,905 due to added costs of transporting patients to more distant state hospitals and higher costs of using local services when state hospital services are not available or too distant to be practical for use.

As is often the case when costs are shifted from one level of government to another, the taxpayer becomes the loser. Added costs covered through tax funds for the closure were estimated at nearly a million and a half dollars.

Table 1 summarizes the changes in costs which are projected to take place. They include maintaining the RSH plant with a crew of 13, remaining severance and unemployment costs, caring for southeastern Minnesota residents in other state hospitals, substituting community based care for 22.7 percent of the former state hospital population from this area who no longer use state hospitals, and adding costs to replace services formerly provided by RSH. All costs are net costs and have been adjusted to reflect the percentage of reimbursement which is paid or received by each level of government.

Two large costs to the state are the closure of RSH's central laboratory and surgical services to other state hospitals. The state Department of Public Welfare had estimated that it will be necessary to spend in excess of $4 million a year to replace these same services in the private sector. However, a change in practice within the state hospital system now discharges patients for surgeries to become eligible for Medical Assistance thus, shifting the costs to another budget in state government.

Other financial considerations not in the chart are economic costs to the area, personal costs to the patients and their families and costs to former employees. In a study by Mary Rieder, Ph.D., of Winona State University, the annual direct economic loss to Olmsted County was estimated at $7 million with a permanent one percent increase in unemployment. Families and patients bear the costs of increased travel and having to purchase in the private sector certain therapy, lab work, drugs and emergency care formerly available to them from RSH at no cost.

Only 90 of the 500 former employees were transferred to other jobs in the state hospital system. An additional 342 received severance and unemployment benefits totaling $3,018,334 for the two year period. The remainder retired or were not eligible for benefits.

TABLE 1

ESTIMATED NET COST DIFFERENCES
ROCHESTER STATE HOSPITAL OPEN/CLOSED
FY 1983

NOTES	STATE		SOUTHEASTERN MINNESOTA COUNTIES		TAXPAYERS (11)	
	a. RSH OPEN	b. RSH CLOSED	c. RSH OPEN	d. RSH CLOSED	e. RSH OPEN	f. RSH CLOSED
1. Rochester State Hospital Budget	$ 6,862,570	$ 1,438,293	$673,081		$12,325,000	$ 1,438,293
2. Patient Care at Other State Hospitals		4,774,546		$ 520,292		7,622,117
3. MI Care in Community Hospitals 819 Patient Days X $175 per day			(included in top figure)	155,995		155,995
4. MI Emergency Holds (129 holds X 3 days X $175)			32,373	67,725	32,373	67,725
5. Outpatient Electroconvulsive Therapy (200 X $50)				10,000		10,000
6. Outpatient Lithium Checks (250 X $15)				3,750		3,750
7. CD Care in Community Facilities 926 Patient days @ $100			(included in top figure)	92,600		92,600
8. Transportation 500 trips			10,000	40,000	10,000	40,000
9. Lab Work For State Hospital System Performed at RSH		425,000				425,000
10. Surgeries for State Hospital System Performed at RSH	(included in top figure	1,759,950		87,997		3,911,000
	$ 6,862,570	$ 8,397,789	$715,454	$978,359	$12,267,373	$13,766,480
Deficit Projected for FY 1983	[$1,535,219]		[$262,905]*		[$1,499,107]	

NOTES:

(1) Rochester State Hospital budget column a is the budget originally recommended by the Governor for FY 1983 reduced by 55.7%, the amount the hospita received in reimbursement for FY 1981. Column b is the approved budget for the closed hospital. County costs due to the closing of the hospital (column c) were calculated by annualizing patient days from report PR20 billings to the counties for last three months of FY 1982 and multiplying FY 1983 state hospital rates.

MI Patient Days: 8347 X 4 quarters X $83.95 = $2,802,922
MR Patient Days: 5961 X 4 quarters X $109.50 = $2,610,918
CD Patient Days: 3486 X 4 quarters X $65.55 = $914,029
5110 days of care at state hospital nursing homes billed separately at $58.72 = $300,059

TOTAL $6,627,928

Since the counties actually paid 7.85 percent of these costs in the last quarter of FY 82 this percent was used to determine the counties' share. The county share for the hospital if open (column d) is based on the same figures increased by 22.7 percent to reflect actual additional use of th state hospital system by southeastern Minnesotans when RSH was open.

(2) Patient care at other state hospitals from (1) above, for southeastern Minnesota counties is reduced in column b by 37.5%, the percentage of: reimbursement to the state shown in the PR20 report used above. The total is adjusted upward by 15% in columns b and f, since 15% of the total RS population came from outside southeastern Minnesota and they too now seek care in other state hospitals.

(3) MI care in the community (column d) was calculated by taking half of the decreased patient days (17.6%) of MI utilization, 819 multiplied by an average daily area cost for area hospital care including ancillary and physician services. The remaining 50% were estimated treatments using othe community based care.

(4) Emergency holds are based on actual emergency and legal holds at RSH during its last year of operation multiplied by three days. Column c is computed by using the state hospital rate of $83.95 and column d by multiplying by $175 community hospital rate from (3) above.

(5) Outpatient electroconvulsive therapy is based on actual treatments at RSH during its last year of operation and current local charges for such treatment. There was no billing when the hospital was open.

(6) Lithium checks are actual RSH outpatient experience multiplied by local charges.

(7) The number of locally used CD patient days was computed from the 21 percent reduction in state hospital use since the closure. Patient days were multiplied by the average local charge.

(8) Five hundered trips to state hospitals is an estimate based on county surveys. The average cost would be $20 if RSH were open (column c) and $80 now that other state hospitals are used (column d)

(9) The cost of using private services to replace laboratory services which RSH provided for the entire state hospital system was calculated by James Walker, Administrative Management, Residential Facilities, DPW at the request of Senator Mel Frederick ($14.50 per test).

(10) The cost of replacing in the private sector, surgical services which RSH provided for the entire state hospital system were also calculated by Walker in the same report. Because much of the surgery is reimbursed under Medical Assistance, column b shows the 45% state share. Column d shows the share paid by southeastern Minnesota counties: 4.56% for half of the RSH surgeries, which is the percentage performed on the in-house RSH population when it was open. Physician surgical services were supplied by the Mayo Clinic when the hospital was open at an estimated value of $1 million with no billing to the state hospital system.

(11) Taxpayers ultimately pay the full share of costs whether incurred by federal, state or county governments.

* Does not include estimated $7 million loss to area economy due to loss of retail and wholesale spending by the hospital, its employees and visitors.

Reimbursement

Data presented on the impact of the closure in Table 1 takes into account, the fact that while the Rochester State Hospital was operating it recovered over half of its operational costs through third party payments. It's reimbursement rate was 55.7% based on the first nine months of fiscal year 1981, the rate for the rest of the state hospital system was 37.5%. A large portion of this income was for surgical patients, but as is the case in any hospital, it was available to help defray some of the total hospital overhead costs.

State Cost Shifts

Because of the Welsch vs. Noot decree the state was required to transfer 45% of general support and surgical positions from RSH to other state hospitals at a time when over half of the MR population at RSH was discharged to the community. For this reason the 194 positions eliminated systemwide by the end of FY 1982 were disproportionately CD and MI even though a greater portion of the population transferred was in these categories.

An additional cost shift has occurred by removing the surgical expenses of RSH from the mental illness budget and paying out the state's full 45% of medical assistance for surgeries done outside the system out of the Medicaid budget.

The attached tables provide backup analysis for figures used in Table 1.

TABLE 2
ROCHESTER STATE HOSPITAL BUDGET AND EXPENDITURES

	Actual			Projected
	FY 1980	FY 1981	FY 1982	FY 1983
Salaries			$5,273,622	$ 450,343
Patient Pay			53,511	
Contractual Services			89,939	50,000
Worker's/Unemployment Comp.			612,576	284,852
Severance/Relocation			1,888,906	232,000
SUBTOTAL	$ 9,835,500	$10,469,236	$7,918,554	$1,017,195
Food			$ 91,218	
Fuel-Utilities			490,912	284,050
Drugs			27,173	
All Other			90,947	97,660
Personal Needs Allowance			722	
SUBTOTAL	$ 1,268,300	$ 1,204,943	$ 700,972	$ 381,710
Repairs and Betterments	$ 75,600	$ 63,264	$ 46,012	$ 39,388
Special Equipment	29,500	170	653	
TOTAL	$11,208,900	$11,737,613	$8,666,191	$1,438,293

SOURCE: Department of Public Welfare Budgets.

At the time the legislature closed the hospital 1t was estimated that 10 percent of the CD patients from southeastern Minnesota, 60 percent of the mentally ill and 90 percent of the MR population would stay in the system. This estimate of an overall reduction of 43 percent use of the system has proven to be incorrect. Data collected from RSH records for 1980, and from other state hospital records since changes in catchment areas took place, show

th9 following differences in use of state hospitals by the eleven counties in southeastern Minnesota:

	Before Closing 1980	Since Closing 1981	Percent Change
CD	397	315	-2151
MI	483	398	-17.6%
MR	113	55	-51%
	993	768	-22.7%

These figures are derived as follows:

Table 3 shows actual use of the state hospital system for the last quarter of FY 82. Using these totals it can be seen that 73 percent of southeastern Minnesota patients were treated in their catchment area of Rochester, St. Peter for HI and CD and Faribault for MR: 72 percent CD, 77 percent MR and 69 percent MI. To obtain the use of the state hospital system now versus when RSH was open (see above), the totals in Table 4 were adjusted upward by the percent of patients treated outside their catchment area to produce the figures in the center column (see above).

Table 5 lists actual patient days for the last quarter of FY 1982 used to calculate total cost of care.

TABLE 3
SOUTHEASTERN MINNESOTA
STATE HOSPITAL POPULATION 4/01/82 - 6/30/82*

	MENTAL ILLNESS						MENTAL RETARDATION					CHEMICAL DEPENDENCY			
COUNTY	ANOKA	FERGUS FALLS	MOOSE LAKE	ROCHESTER	ST.** PETER	WILLMAR	BRAINERD	CAMBRIDGE	FARI-** BAULT	ST. PETER	WILLMAR	FERGUS FALLS	ROCHESTER	ST.** PETER	WILLMAR
ODGE					3	1		1	3			1			
ILLMORE		1	2		4	1	1	1	6					6	1
FREEBORN			3	1	6	2			2		2	2	1	22	3
OODHUE		1		1	7	.		1	4			1		5	
HOUSTON		2	1		4	2								4	
OWER	1		1	1	9	1		3	3			3		10	
LMSTED			7	1	32	7		2	4			12	1	12	4
RICE	1		1	1	11	2			16			1	1	8	1
TEELE			1		9	2			5	1		3		3	
WABASHA			1		5			1	7					7	
INONA			1		5	2	2	1	5			1	1	8	1
OTAL	2	4	18	5	95	20	3	10	55	1	2	24	4	85	10

Total Mental Illness - 144
otal Mental Retardation - 71
Total Chemical Dependency - 123
Total All State Hospitals - 338

*Does not include 14 southeastern Minnesota residents in Oak Terrace or Ah-Gwah-Ching Nursing Homes.
**Hospital designated to take patients from southeastern Minnesota. These hospitals could accomodate only 72 percent of southeastern Minnesota.

URCE: DPW Report RP20

TABLE 4
COMPARATIVE USE OF STATE HOSPITAL SYSTEM
BEFORE AND AFTER RSH CLOSURE

	Chemical Dependency		Mental Illness				Mental Retardation	
	1981 RSH	1982 St. Peter	1981 RSH	1982 St. Peter[1] Actual	(Months)	Annualized	1/1/81[2]	1982[3]
Dodge	23	5	24	4	(6)	8	6	4
Fillmore	26	4	31	6	(4)	18	12	8
Freeborn	44	56	26	12	(6)	24	8	4
Goodhue	15	13	45	8	(4)	24	7	5
Houston	22	10	18	4	(5)	9	10	0
Mower	19	12	44	16	(6)	32	19	6
Olmsted	147	55	134	26	(4)	84	22	6
Rice	8	18	48	18	(6)	36		16[4]
Steele	11	5	38	12	(6)	24	3	6
Wabasha	23	19	33	4	(5)	9	10	8
Winona	59	30	42	4	(5)	7	16	8
Total	397	227	483			275	113	71

[1]Shift to St. Peter as follows:
12/1/81 Dodge, Rice, Steele
1/1/82 Freeborn, Mower
2/1/82 Houston, Wabasha, Winona
3/1/82 Fillmore, Goodhue, Olmsted
[2]Patient census RSH on 1/1/81
[3]Actual printout from county poor relief billings.
[4]Because Faribault State Hospital for the retarded is located in Rice County, the county did not use RSH. It has more MR patients because patients under state guardianship at Faribault State Hospital are counted as Rice County residents.

Source: State Hospital Annual Reports.

TABLE 5
PATIENT DAYS IN STATE HOSPITALS
FOURTH QUARTER FY 1982

	MI	MR	CD
FREEBORN	463	143	523
DODGE	288	364	55
FILLMORE	308	728	136
GOODHUE	416	285	250
HOUSTON	525		89
MOWER	905	533	331
OLMSTED	2,945	474	990
RICE	961	1,516	339
STEELE	788	492	173
WABASHA	465	720	256
WINONA	280	706	316
	8,347	5,961	3,458

Source: DPW Report RP20

TABLE 6
SOUTHEASTERN MINNESOTA COUNTIES STATE HOSPITAL CHARGES
4/01/82 - 6/30/82

COUNTY	MENTAL ILLNESS			MENTAL RETARDATION			CHEMICAL DEPENDENCY		
	TOTAL CHARGE	TOTAL PAYMENT	COUNTY SHARE	TOTAL CHARGE	TOTAL PAYMENT	COUNTY SHARE	TOTAL CHARGE	TOTAL PAYMENT	COUNTY SHARE
DODGE	$ 25,065.75	$ 456.00	$ 2,506.56	$ 32,013.80	$ 30,159.80	$ 908.98	$ 4,837.35	$ 4,873.35	$ 483.72
FILLMORE	28,056.05	1,538.34	2,805.59	64,027.60	63,154.49	873.11	9,850.40	-0-	985.02
FREEBORN	68,425.10	3,496.61	6,842.46	21,811.60	21,236.13	338.00	72,189.70	3,483.05	7,440.51
GOODHUE	43,623.20	1,676.06	4,362.29	40,017.25	39,768.47	248.78	27,189.70	260.00	2,726.44
HOUSTON	46,613.50	11,774.17	4,219.44	-0-	-0-	-0-	7,827.75	1,385.22	782.74
MOWER	82,057.35	14,943.93	7,405.46	46,877.35	43,880.70	1,409.27	31,749.95	-0-	3,174.96
OLMSTED	257,137.57	33,260.34	24,861.17	44,502.70	42,497.48	2,005.22	87,779.95	4,388.47	8,750.98
RICE	75,728.80	3,684.30	7,572.82	135,250.70	128,509.31	6,894.80	32,277.65	967.45	3,227.73
STEELE	67,545.60	5,623.28	6,754.52	37,994.40	34,630.58	3,082.37	15,215.35	879.45	1,521.52
WABASHA	40,196.75	581.43	4,089.65	63,324.00	62,276.62	1,047.38	22,427.25	1,800.00	2,242.71
WINONA	24,602.56	5,579.80	2,460.23	62,092.70	45,826.41	2,568.87	27,792.20	4,073.40	2,869.19
TOTAL	$759,052.23	$82,614.26	$73,880.19	$547,912.10	$511,939.99	$21,165.55	$339,137.25	$22,110.39	$ 34,205.52

Total all charges for all three illnesses - $1,646,101.58
Total payment for all three illnesses - $616,664.65
Total county share for all three illnesses - $129,251.26

Note: Total charges represent full state hospital charges: total payment is reimbursed from all sources; county share is ten percent of balance.

SOURCE: DPW Report RP20

COST COMPARISONS

TABLE 7
ONE 30 DAY INPATIENT MENTAL ILLNESS STAY

Facility	Hospital Charges Basic Rate Day/Stay	Ancillaries	Physician Charges[1]	Transportation[2]	Total Charge	State Share	County Share[3]
RSH	$83.65/$2,509.50			$ 80	$2,589.50	$2,258.55	$ 330.90
Other St. Hosp.	83.65/2,509.50				2,789.50	$2,258.55	539.90
Small Community Hospital	120.00/3,600.00	(24) $720.00	$1,500	20	5,820.00	-0-	5,820.00
Large Community Hospital	200.00/6,000.00	(24) $720.00	$1,500	80	8,220.00	-0-	8,220.00

1. Estimated
2. From Houston County
3. a County pays 10 percent state hospital charge and 100 percent transportation charge.
   b. Because few MI inpatient stays are eligible for medical assistance, the county could pay full share. If eligible for MA, county share is 4.56 percent.

TABLE 8
28 DAY CHEMICAL DEPENDENCY STAY

Facility	Hospital Charges Basic Rate Day/Stay	Other Medical	Transportation[1]	Total Charge	State Share	County[2] Share
RSH	$65.55/$1,835.40	0	$ 80	$1,915.00	$1,615.86	$ 263.50
Other St. Hosp.	65.55/ 1,835.40	0	289		$1,615.86	454.10
Community Treatment Center	182.00/ 5,096.00	?	80		-0-	5,176.00
Large Community Hospital	90.00/ 2,520.00	72.00	160		-0-	2,752.00

[1]From Houston County
[2]County share of state hospital costs is ten percent. Few CD patients are eligible for MA unless under age 18.

TABLE 9
MI OUTPATIENT

Facility	Charge	State Share	County Share
RSH	-0-	100%	-0-
Other St. Hosp	N/A	0	
MH Clinics	$45/hour	0	CSSA/Title 20
CHS Home Health Visit	$40/hour	0	CHS Grant
Growth Center (Rule 14)	$22 day	19.80	2.20
Circle Center	0	3.6	.40

TABLE 10
SUBACUTE RESIDENTIAL

Facility	CD	MI	State	County Share
Pine Circle	$24.93/day			$24.93
Agape	$25.00/day			25.00
Quarry Hill		$71.70	$53.92	17.78
Carlson House		22.00		
Hiawatha House		48.00		
Broadway House		59.00		
Thomas House*		31.00		

*60 percent private pay, 40 percent Medical Assistance

County Impact

Counties have experienced added expense in traveling to more distant state hospitals, in replacing services locally which were formerly provided by RSH at no charge, and in substituting community based services when other state hospitals are unavailable or are too far away for practical use.

Counties in the southeastern part of the region are hardest hit by added travel expense. Houston County calculated actual travel cost increases of nearly $4,000 to the Sheriff's budget (25 trips in six months).

Counties pay 100 percent of the cost of precommitment care and emergency holds, they are faced with the higher costs at local hospitals since state hospitals are at a greater distance and often not available.

Services formerly provided by RSH at no charge to outpatients were: medical care, laboratory work, electroshock, and surgery. In some cases counties are also being asked to both arrange for and pay for medical care and electroshock for inpatients at other state hospitals, services which had been available at RSH at no charge.

Counties in southeastern Minnesota feel a particular pinch with outpatient care since in the past RSH operated a day treatment program and drop-in center with no billing to the counties. A portion of this service has been picked up with Rule 14 funding in Goodhue, Mower, and Olmsted counties, but these day programs *are* small and cannot replace the over 960 outpatient visits the state hospital recorded in FY 1981.

When persons use the services of the mental health centers the charge is approximately $45 per hour. Funding for these agencies, which comes through CSSA grants allocated by the counties, has been cut. Clinics now have fewer resources to treat their normal caseloads. The closure of RSH and the added stress to families caused by poor economic times have increased the demand for services by up to 50 percent. This situation results in scheduling of patients so that those in crisis are seen while others must wait. These scheduling delays may precipitate further crisis among those who *are* waiting.

It has been difficult to separate RSH closure costs from two additional cost factors for counties: increased costs attributed to the new commitment proceedings, estimated at from $800 to $1,000 per case, and increased case load due to economic conditions.

Local Economic Impact

In a study by Dr. Mary Rieder, an economist at Winona State University, a figure of seven million dollars annually was determined to be the direct reduction in spending, primarily in the Rochester area, because the state hospital, a business previously employing over 500 persons, closed. These figures include estimated losses of employee spending, institutional spending and spending by patients, their families, visitors and volunteers. When secondary costs were added the estimate was $10.9 million. The closure is expected to result in a permanent unemployment increase of one percent.

Individual Impact

Financial costs to individuals are two fold: those to patients and those to employees. For patients, costs to individuals who use the system and their families can include travel to a more distant state hospital. Round trip bus fare from St. Peter to Rochester is $20.65; to Caledonia it is $34.65, a considerable expenditure for a low income family. If the patient remains in the community, there are added costs for therapy, lab work, drugs and emergency care which were formerly free of charge at RSH.

Of the 500 employees, 342 were eligible for severance pay and unemployment benefits. Ninety transferred to other jobs in the system thus requiring relocation costs. Thirteen remain on the payroll to maintain the buildings and grounds. Some retired and the remainder who lost their jobs were not eligible for severance pay. In some cases, depending on their status, they were eligible for up to six months of unemployment benefits. In addition to losing income, many also lost health benefits for themselves and their families. They also incurred personal costs related to seeking new employment and facing possible relocation as well as adjustment to reduced family income.